

EX-CIA director predicts move by Andropov

## Colby says U.S.-Soviet tensions may escalate

BY RICK NELSON  
Chronicle Staff

Former CIA Director William Colby predicts a short-term escalation of tensions between the U.S. and Russia under new Soviet leader Yuri V. Andropov.

Colby quoted from reports that Andropov is urbane, enjoys Scotch whiskey and was enamored of Budapest women while ambassador to Hungary, but said the new Soviet leader is a "dedicated servant of the party structure," who was "weaned on communist ideology and performed dutifully to stem the Hungarian uprising."



Colby

"He has shown subtlety in recent years," Colby, now a private consultant, author and lecturer, told a luncheon meeting Wednesday of the Houston Chamber of Commerce at the downtown Sheraton Hotel.

Andropov quashed the Soviet dissident movement during the late 1970s without violence, Colby said. Anyone who spoke against the Soviet government was deemed obviously crazed and in need of psychiatric care. Andropov then had the dissidents sent to psychiatric institutions, Colby said.

Colby, director of the Central Intelligence Agency from 1973 to 1976 — during the latter part of the Nixon administration and the Ford administration — said he expects a "heightening of rhetoric"

during the first period of Andropov's rule, which, in turn, will lead to "increased tensions."

Those tensions will continue until leaders of both superpowers decide a "new relationship" is needed, he said.

"We're sitting here 30 minutes from a (Russian) officer in a silo with the correct keys to blow up this city," Colby said. The U.S. military holds a similar counterthreat, he noted.

Calling this a "dangerous world," he said the two superpowers will push each other into "seeking a relationship" rather than "live on the edge of tensions."

Soviet motives continue to be maintaining power and position in the world and at home, the former director said. Noting the ease with which Andropov emerged as Soviet leader, without the power struggles that marked previous transitions, Colby said it reflected a maturation of the communist leaders now in control. "Andropov has shown the ability to operate within the party apparatus," Colby said.

He told the meeting of the chamber's International Business and Governmental Relations Councils that governments and private companies alike must take precautions against terrorist activities.

He also said a certain amount of "anti-Yankee" sentiment will surface in economically depressed Mexico but that the current government will keep its "continuity of power."

On another topic, he said the CIA should not be condemned for the conviction of former CIA agent Edwin Wilson, on charges of smuggling guns to Libyan officials. Every organization has a "few bad apples," he said, singling out the military, police forces and Congress.

Approved For Release 2001/03/07 : CIA-RDP91-00901R

UNITED PRESS INTERNATIONAL  
17 November 1982BY BRUCE NICHOLS  
HOUSTON

Former Central Intelligence Agency Director William E. Colby said Wednesday he expects a short-term chilling of relations between the United States and Soviet Union because new Soviet leadership has taken power.

"I think we are in for a period of heightening of rhetoric," Colby told a Chamber of Commerce luncheon meeting. "I think we are in for, in the short term at least, an increase in the degree of tensions between our two countries."

However, Colby, now a Washington-based lawyer and international business consultant, said in the long run he expects mutual accommodation to reduce tensions.

"Our leadership is exactly the kind that can reach out to a hostile leadership," Colby said, suggesting President Reagan like President Nixon would be in a strong position to deal with a Communist country.

Colby said "I think this is a dangerous world but it is also the kind that will push both sides" toward reaching some accommodation to reduce the risk of a nuclear confrontation.

Yuri Andropov succeeded Leonid Brezhnev as Communist Party chief after Brezhnev died last week.

On another subject, Colby said Wednesday's Alexandria, Va., conviction of renegade CIA agent Edwin Wilson of smuggling arms to Libya was the desirable course of justice and not a blot on the agency.

"The CIA has had literally thousands of people go through it over the years. It has had a few bad apples. When someone transgresses American law, he is prosecuted. That's what happened to Mr. Wilson," Colby said.

"But I don't think we condemn (the institution) for the actions of a few bad apples."

Colby addressed the Chamber of Commerce International Business and Governmental Relations Council under the title "International Political Terrorism -- Threats and Defenses."

He suggested that American companies need to do more to gather public support to increase their security against terrorist attacks.

"A company in a situation faced with the existence of terrorists must have a conscious program, not only of finding out about threats ... having security ... but also development of public support," Colby said.

"In this way, the sympathies of the people can be for the organization, for the company, rather than for the terrorist."

STATINTL

Approved For Release 2001/03/07 : CIA-RDP91-00901R000500070018-0

# RADIO TV REPORTS, INC

4701 WILLARD AVENUE, CHEVY CHASE, MARYLAND 20815 656-4068

STATINTL

FOR PUBLIC AFFAIRS STAFF

PROGRAM Nightline. STATION WJLA TV  
ABC Network

DATE November 15, 1982 11:30 PM CITY Washington, DC

SUBJECT The New Soviet Leadership

TED KOPPEL: Even as Leonid Brezhnev was being laid to rest today, world attention focused on his successor. Who is Yuri Andropov, the new leader of the Soviet Union, and what does the accession of a former KGB chief mean to the West?

We'll focus on those questions tonight as we talk with former CIA chief William Colby, with former Soviet U. N. diplomat Arkady Schevchenko, with Vladimir Posner, English language commentator for Radio Moscow -- we'll talk to him, via satellite, from Moscow -- and with Andre Marton (?), former API correspondent who remembers Andropov as Soviet Ambassador to Budapest at the time of the Hungarian Revolution.

\* \* \*

KOPPEL: Good evening.

It is as though J. Edgar Hoover at the height of his influence as Director of the FBI had suddenly become President of the United States. And even that analogy is inadequate, because the KGB has no real equivalent here in the United States. It is the FBI and the CIA, and perhaps also the collective state and municipal police forces of the entire country, so pervasive is its presence and power. And the man who has just ascended to the Kremlin's most powerful post, General Secretary of the Soviet Communist Party, Yuri Andropov, was until six months ago the head of the KGB. A recent profile in the New York Times takes note of Andropov's fondness for Scotch whiskey and tennis, Western novels and music. He is said to speak near fluent English. In short, he is far more urbane than Brezhnev or Khrushchev or Stalin.

Approved For Release 2001/03/07 : CIA-RDP91-00901R000500070018-0

ARTICLE APPEARED  
ON PAGE 31

NEW YORK TIMES  
13 NOVEMBER 1982

## COMPANY NEWS

# Australia Suspects Bank Link To C.I.A.

Special to The New York Times

SYDNEY, Australia, Nov. 12 — Australian detectives are expected to visit the United States and Southeast Asia in the next few weeks as they attempt to determine whether the failed Sydney-based Nugan Hand Merchant Bank was involved in trafficking in heroin and covert activities of the United States Central Intelligence Agency.

Under particular scrutiny will be the work carried out for Nugan Hand by retired United States Government officials and military officers between 1977 and 1980, when one of the bank's founders, Frank Nugan, was found shot dead and the other, Michael Hand, vanished. The bank collapsed following Mr. Nugan's death.

In a report released earlier this week, the Australian Government said it had uncovered evidence of a link between the C.I.A. and Nugan Hand. The report, heavily censored because the Government thought that publication might inhibit the continuing investigations, was made by a police group studying the possible involvement of the bank in drug trafficking.

The report said that Mr. Hand, who was born in New York City, and a Nugan Hand associate, Bernard Houghton, a 62-year-old Texan who was the bank's representative in Saudi Arabia, had a background in American intelligence before they arrived in Sydney in 1967.

Mr. Hand, who became an Australian citizen in 1979, is believed to be in the United States, the report said.

### A 'Strong Inference'

The police report said of Mr. Hand: "His business activities in the late 1960's and the early 1970's with members of the C.I.A.-controlled airline, Air America, and C.I.A.-connected Continental Air Service and Agency for International Development led to the strong inference that Hand's intelligence activity was with the C.I.A."

"There is some evidence to suggest that Hand retained his U.S. intelligence ties through the 1970's and probably into the 1980's. Houghton was associated with U.S. intelligence personnel in Southeast Asia and Australia, and had some type of association with personnel in the Australian security and intelligence organization."

Kevin Newman, Australia's administrative services minister, said in a statement that senior American officials had assured him that the C.I.A. had no involvement in the bank. The report said it was not drawing conclusions about C.I.A. involvement with the bank, and its only recommendation was that further investigation was warranted.

The censored part of the report is believed to discuss links between Nugan Hand and organized crime, establishing that the bank was involved in heroin smuggling.

### Millions of Dollars Transferred

Among the deletions in the report were nearly two pages following the heading "The unfinished investigation, United States personnel involved."

Almost 40 pages of the 240-page report were devoted to Mr. Houghton. The report said that when Mr. Houghton ran the Saudi Arabian office, the bank transferred millions of dollars out of Saudi Arabia. The money has yet to be traced.

Many pages relating to Mr. Houghton were deleted. Their headings include "The destruction of Nugan Hand records"; his meetings in 1979 with a former C.I.A. operative, Edwin P. Wilson, who was recently arrested in the United States and charged with exporting explosives to Libya to help train terrorists, and a section headed "Houghton and two Australian clients of Nugan Hand — a case of fraud?"

The report included a long list of Americans who worked for Nugan Hand.

### Colby Is Named

Among those named were Rear Adm. Earl Yates, United States Navy, retired, the first president of Nugan Hand International; William E. Colby, Director of Central Intelligence from 1973 to 1976, who worked as legal adviser to Nugan Hand International after 1979; Walter McDonald, former economist and oil expert at the C.I.A., who joined Nugan Hand International in 1979 as a consultant; Brig. Gen. Edwin Black, United States Army, retired, the bank's representa-

tive in Hawaii; Lieut. Gen. LeRoy Manor, United States Air Force, retired, the Nugan Hand representative in Manila; Dr. Guy Pauker, a consultant to Nugan Hand International, and Dale Holmgren, the bank's Taiwan representative, who was an Army officer in Taiwan.

Apart from the police investigations, a Royal Commission on drug trafficking is also looking into activities of the Nugan Hand Bank.

A United States Senate select committee on intelligence has also been investigating whether there was a link between the bank and the Central Intelligence Agency. It has yet to publish its report.

STATINTL

UNITED PRESS INTERNATIONAL  
9 NOVEMBER 1982

CANBERRA, Australia

Retired U.S. military personnel and government advisers dominated top positions in the mysterious Nugan Hand Bank, which was accused of acting as a CIA front, an official Australian report said Tuesday.

The report by a Federal Australian Government and New South Wales State Government joint Task Force was delivered to both the state and federal parliaments.

The now bankrupt bank has been accused of being a CIA front and of carrying out international drug smuggling and arms dealing. Many of the charges were raised in Australian Penthouse, an affiliate of the U.S. magazine with the same name.

The CIA has denied the charges.

In introducing the report, Federal Administrative Services Minister Kevin Newman said it made no conclusions about links between the CIA and the bank, although bank personnel had ties with the CIA.

Investigations into the bank began in January 1980 when the bank's founder Frank Nugan was found shot dead near Sydney, an apparent suicide. Reports the bank was engaged in drug smuggling and arms dealing were circulating before his death.

Deputy Opposition Labor Leader Lionel Bowen said he believed after reading the report the bank had nothing to do with the CIA intelligence operations, but he also felt the CIA was involved in the bank.

Bowen quoted a recent American television report quoting former bank operative Neil Evans as saying the bank was established as the paymaster for the CIA throughout the world.

On the crime aspects of the bank, Bowen said he believed it wasn't involved with the agency, but he also doubted the truth would come out.

"I don't believe anyone will ever get to the bottom of the Nugan Hand Operation," he said. "Intelligence operations will probably be covered up because of the reason that there is no need to know."

Many sections in the report were deleted since the task force is still carrying out inquiries that may lead to criminal charges.

The report said several Americans were involved in the Nugan Hand operation, subject to investigation by Senate committees in America.

*CONTINUED*

AIM REPORT  
(ACCURACY IN MEDIA, INC)  
NOVEMBER 1982

## CBS JOINS THE ATTACK

A month after The Wall Street Journal unleashed Jonathan Kwitny to attack the CIA via Nugan Hand, CBS News joined the assault. On September 22, Gary Shepard said on the CBS Evening News: "Nugan Hand was not your ordinary bank. There were secret numbered accounts, and hardly any of its top people were bankers. Many were American civilians and former high-ranking military officers with ties to U.S. intelligence. When they found the body of Australian businessman Frank Nugan, the bank's chairman, shot to death a few months before the bank went under, they discovered in his pocket the business card of this man, William Colby, former director of the CIA."

That sounds even more ominous than Kwitny's account. One can almost picture the CIA bumping off Nugan and leaving Bill Colby's calling card. Failing to explain that Nugan committed suicide, Shepard referred to Nugan's death as "mysterious." He threw in "illegal currency transactions, big-time drug operations, and the Central Intelligence Agency."

Shepard did not name any of those high-ranking military officers "with ties to intelligence." He couldn't. Nor did he enumerate any of the "many" civilians. He did not bother to explain the connection between Colby and Nugan Hand. Why spoil a good story with facts?

As we noted above, Frank Nugan's partner, Michael Hand, skipped out of Australia on a false passport and has not been seen since. CBS didn't have time to say that. They disposed of Hand this way: "He disappeared a short while after the bank collapsed and is now believed to be dead." There is no evidence that Michael Hand is dead. This was a dramatic touch to imply that someone was intent upon killing the two top officers of Nugan Hand.

Shepard then said: "Australian newspapers reported the connection between Nugan Hand and the U.S.

Navy's super-secret intelligence unit, known as Task Force 157. Among its top agents, CIA man Edwin Wilson, now under indictment for selling arms and explosives to Libyan dictator Muammar Qaddafi."

The alleged Edwin Wilson connection had not escaped Jonathan Kwitny's attention. He noted that a man named Neil Evans, identified as a former Nugan Hand employee, had said that Michael Hand had met Wilson in Bangkok to discuss arms deals. Kwitny pointed out that other Nugan Hand officials had denied Evans' story. Evidently Kwitny had reservations about Evans' credibility, but Shepard had no such reservations. He said that Evans claimed the CIA had made millions from the drug trade and had used the money to finance secret projects. He showed Evans saying: "The idea was that money would be deposited with the Nugan Hand Bank by the CIA through various channels, and also that the Nugan Hand Bank would be the repository for funds coming in from various CIA enterprises, namely drugs in Thailand, marijuana in particular, and that the bank, the Nugan Hand Bank, would then be responsible for re-routing that money to an account in America, a New York Bank."

Adm. Yates says he never heard of Neil Evans, and even Jonathan Kwitny apparently found his tales a bit too tall, but CBS News treated him as a great find.

ARTICLE APPEARED ON PAGE

20

THE OFFICER  
NOVEMBER 1982

# International Intr Under Museum Cover

By Howard Handleman

Every American school child knows George Washington was "first in war, first in the hearts of his countrymen."

But how many know he was also America's "first spymaster?"

He was. And that is but one of the stories planned for display in the projected National Historical Intelligence Museum.

Other tales to be portrayed in the museum range from the Bible to the modern age of nuclear and space weapons.

Plans to set up the museum to tell the rich story of espionage and its role in shaping American as well as world history are well advanced.

Already, the museum directors are actively seeking a site, preferably in Washington, Virginia or Maryland.

In addition, leaders of a number of national organizations are cooperating. Included are the Reserve Officers Association (ROA), whose Executive Director, Maj. Gen. J. Milnor Roberts, AUS (Ret.), is Vice-President of the museum's board. Also interested are the Association of Former Intelligence Officers (AFIO), and the Veterans of OSS (Office of Strategic Services). The AFIO President is on the Advisory Board. Other

AFIO members are serving on the museum board and others as volunteers in advisory capacities.

A joint planning group of representatives of the William J. Donovan Memorial Foundation and of the Museum Board is considering how best to combine a collection in honor of Gen. William J. Donovan, founder of the OSS, with other proposed content of the Museum. As planned, it will display and describe OSS operations and irregular warfare during World War II.

The basic concept behind the museum is to tell the story of espionage which banked so heavily on espionage to gain its independence, has no museum to tell the story. The

Heavy emphasis is to be placed on American intelligence through history, but some exhibits on espionage in other parts of the world are also to be included. Featured will be tales from the Bible, the Chinese master Sun Tzu, Genghis Khan, Queen Elizabeth I, and Napoleon.

Much attention is to be paid to spies and other intelligence stories of both World Wars, the Cold War, and up to the present day. In the American sections, the role of Washington in personally directing

agents during the Revolution is to be prominently exhibited. Operations of both sides in the Civil War will be shown.

The museum will touch all bases. There will be technology, from the fairly primitive secret writing of the Revolution to the lasers and photography from space of today. Feats of imagination and daring, of both women and men, play a large part in the story that is to be told. Planned are exhibits depicting irregular warfare, civil and military operations, strategic, tactical and diplomatic intelligence.

There will be exhibits on the "Enigma" machine and the American "Magic" operation which permitted the reading of some of the most secret Nazi and Japanese codes during World War II.

Enemy exploits are also to be displayed. These include the Kaiser's spies and saboteurs in World War I, Nazi and Soviet espionage during that conflict and afterward.

Industrial secrets have been targets of governmental and private organizations since the Industrial Revolution. There will be exhibits on this still very lively activity of spies.

Special attention is to be paid to communist agents at work today. This includes the Soviet KGB, and

GRU, as well as all East European spy services and the Cuban DGI.

These operations are to be displayed to answer some of the biting questions of today, such as: What are the principal intelligence targets in the U.S. now, what is the KGB doing in the U.S., and how does it operate? The Cuban DGI? What is America doing to protect itself—and us?

In this section the museum will feature known Soviet spies—the Abels, Philbys, Burgesses, MacLeans, Blunts, Blakes, Fuchs, Mays and Rosenbergs of the postwar era.

Before and during the war there was the Sorge Ring in Japan, which will be portrayed. The ring warned the Soviets of the Nazi plan to invade Russia, a warning which Stalin refused to heed. But later he did act on Sorge's word that Japan had decided against attacking Siberia, which enabled the Soviets to divert their Eastern Armies to aid in the successful defense of Moscow.

Landmarks of American history will be exhibited—some successes, some failures. Included are Pearl Harbor, Midway, the ambush of Admiral Yamamoto, the surprise attack on Korea, the Cuban Missile Crisis, the U-2 and Berlin's Tunnel and Wall.

The story of Herbert O. Yardley's

"American Black Chamber" is to be told in photograph and text. It cracked the Japanese code and let the U.S. read reports of how the British and Japanese were in cahoots during the 1921 naval disarmament talks in Washington.

The section on the American Revolution is to exhibit the exploits of a whole galaxy of spies—Paul Revere, Nathan Hale, the "Culpers," Mulligan, Rivington, Altken, Crosby, Gray, Tallmadge, Armistead, Morgan, Ludwick, Salley Satter, Nancy Morgan and on.

STATINTL

AIM REPORT  
(ACCURACY IN MEDIA, INC)  
NOVEMBER 1982

STATINTL

## THE JOURNAL'S KWITNY NEVER QUILTS

Jonathan Kwitny, one of the Wall Street Journal's star reporters, is familiar to regular readers of the AIM Report. In 1981, we pointed out that a major story he had written about the State Department White Paper on El Salvador was based largely on an analysis written by CIA defector Philip Agee. The Agee critique of the State Department's charge that communist-bloc countries were supplying arms to the guerrillas in El Salvador had been released in Washington by the editors of the *Covert Action Information Bulletin*. This publication is devoted to Agee's project of exposing the identities of CIA agents, and Agee is on its advisory board.

Kwitny obtained a copy of the Agee article on the White Paper from these editors. He studied it and produced a front-page story for the Wall Street Journal which contained 13 criticisms of the White Paper. Every one of them had been made first by Agee. It is no wonder that Agee himself told the Los Angeles Herald-Examiner that Kwitny's story was based on his analysis, even though Kwitny did not acknowledge his debt to Agee.

Frederick Taylor, executive editor of The Journal, was sufficiently stung by the letters of criticism of Agee that he received from AIM members and others that he published a 1400-word defense of Kwitny. He only made matters worse, since he pointed out that another of Kwitny's sources had been John Kelly, editor of the notorious magazine *CounterSpy*. *CounterSpy* is like *Covert Action Information Bulletin*, only worse.

### Kwitny Cuddles Up To Castro

Despite our devastating expose of Kwitny and his reliance on extremist sources, The Wall Street Journal next dispatched him to Cuba to do a story for its readers on how Castro was getting along. The result was a story published on November 16, 1981, which no doubt pleased Castro immensely, but which brought forth stinging rebukes from readers familiar with the facts about Cuba and even from one of the Journal's editorials.

The AIM Report for January-I 1982 covered Kwitny's pro-Castro story in depth, but here is a reminder of how far he was willing to go in his efforts to make Castro's communist catastrophe look good. He wrote: "The average Cuban lives very well these days by Third World standards. He also suffers political repression,

but accepts it as a price for his economic gains. He strongly supports his government's foreign and domestic policies." Later he argued that Cubans believe "that real restrictions on their lives are less now than under previous right-wing dictatorships." These statements are obviously contradicted by the behavior of the Cuban people. Over one million Cubans have fled their homeland to escape what Kwitny would have us believe is an improvement in their economic condition and their freedom.

### Kwitny Goes Down Under

On August 24, 25, and 26, 1982, Kwitny again appeared on the front page of The Journal with three long articles about a small merchant bank in Australia that had gone bankrupt two years earlier. Bank failures are not such a rarity these days that one in Australia merits front-page treatment in this country. And though Australia is a long way off, it should not take over two years for news of any event of importance to reach New York City.

Why was The Wall Street Journal giving such play to a two-year-old story about the failure of an obscure Australian bank? It was not as if the bank's collapse had threatened the solvency of any American financial institutions. Nugan Hand, Ltd. was a merchant banking enterprise embracing some 40 related corporations scattered around the globe. It has been described as "a two-bit merchant banking firm."

Jonathan Kwitny's interest in Nugan Hand was political, not financial. The Australian Communist Party newspaper, *The Tribune*, had floated charges that the bank was involved with the CIA and had been the channel for CIA funds into Australia. The allegations covered drug dealing, arms running and funding opposition to Prime Minister Gough Whitlam back in 1975. These charges, which remain unsubstantiated allegations to this day, were picked up by the sensationalist press in Australia and they found their way into *CounterSpy* in this country. As Frederick Taylor, executive editor of The Journal admitted in print, *CounterSpy* is a source that Jonathan Kwitny has relied upon in the past. It seems likely that this is what whetted his interest in Nugan Hand.

STATINTL